



Order 2004-8-22

**UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.**

Issued by the Department of Transportation
on the 19th day of August, 2004

Essential Air Service at

**CLOVIS, NEW MEXICO, and
SILVER CITY/HURLEY/DEMING, NEW MEXICO**

under 49 U.S.C. 41731 *et seq.*

Served: August 24, 2004

**Docket OST-1996-1902
Docket OST-1996-1903**

**ORDER SETTING FINAL SUBSIDY RATES AND
TO SHOW CAUSE**

Summary

By this order, the Department is setting final past-period subsidy rates for Mesa Air Group, Inc. (on behalf of its wholly-owned subsidiary, Air Midwest, Inc.) for its provision of essential air service at Clovis and Silver City/Hurley/Deming, New Mexico, summarized as follows:

<u>Period</u>	<u>Clovis</u>	<u>Silver City/Hurley/Deming</u>
October 1, 2001, through March 31, 2003	\$1,265,010	\$1,152,858
April 1, 2003, through June 30, 2004	\$1,344,044	\$1,264,828

The Department is also tentatively reselecting Mesa/Air Midwest to continue serving Clovis and Silver City/Hurley/Deming for annual subsidy rates of \$1,439,865 and \$1,352,983, respectively, for the period of June 1, 2004, through July 31, 2006.

Background

Mesa has provided subsidized essential air service either as Mesa Airlines, Inc., or as Air Midwest, Inc., at Clovis and Silver City/Hurley/Deming since the mid- to late-1980's. Most recently, the Department selected Mesa to serve the two New Mexico communities by Order 2001-5-18, May 15, 2001, for annual subsidy rates of \$1,118,197 for Clovis and \$935,667 for Silver City/Hurley/Deming. Under the terms of that selection, Mesa was to provide 18 nonstop round trips each week between Clovis and Albuquerque, and between Silver City/Hurley/Deming and Albuquerque.

In response to the terrorist attacks of September 11, the Department issued Order 2002-2-13, February 15, 2002, authorizing emergency essential air service payments to all subsidized carriers because of the losses suffered by them in the face of generally lower revenue and higher costs after the terrorist attacks of September 11, 2001, and to reflect and compensate for the fact that the essential air service carriers are paid on a pre-agreed, fixed rate per flight. That order provided for immediate increases to the final rates then in place on an *ad hoc*, interim basis, along with the authority to re-negotiate new final rates to October 1, 2001, until the end of the carriers' selection term.¹ Order 2002-2-13 set interim rates of \$1,067,494 for Clovis and \$1,122,676 for Silver City/Hurley/Deming from October 1, 2001, through March 31, 2003, the expiration date of the carrier selection for the two communities.

Because the subsidy rates set for service at Clovis and Silver City/Hurley/Deming expired on March 31, 2003; the Department extended the rates set by Order 2001-5-18 as interim rates from April 1, 2003, until further Department action, by Order 2003-5-25, May 23, 2003.

The Department must now set final subsidy rates for the period of October 1, 2001, through March 31, 2003, to replace the interim rates set by Order 2002-2-13. It must also set final rates from April 1, 2003, through May 31, 2004, and will propose to set final rates from June 1, 2004, through July 31, 2006.

Action on Past-period rates

For the rates originally set for both communities by Order 2001-5-18 for the period of October 1, 2001, through March 31, 2003, we have concluded negotiations with Mesa Air Group, Inc., d/b/a Air Midwest, and have made adjustments consistent with the framework established by Order 2002-2-13, namely, that we would make up for revenue reductions, to the extent that they fell below those forecast in the final rates in effect on September 11, and for insurance and security increases directly attributable to the September 11 attacks. (Traffic-related expenses are adjusted downward proportional to the drop in passengers, and the profit element is a flat five percent of total operating costs.) This process yields rates of \$1,265,010 on an annual basis for Clovis and \$1,152,858 for Silver City/Hurley/Deming. (For summary computations of these rates, see Appendix B, pages 1 and 4.)

In the second step, we are setting rates based on rate negotiations that we have completed with Mesa Air Group, Inc., d/b/a Air Midwest, at each community that will be effective from April 1, 2003, through May 31, 2004. The annual rates amount to \$1,344,044 for Clovis and \$1,264,828 for Silver City/Hurley/Deming. (For summary computations of these rates, see Appendix B, pages 2 and 5.) We have reviewed the carrier's proposals and find these rates reasonable for the service provided.

Tentative Selection Decision

Because of the extensive past-period rate issues that are combined with the carrier selection process in this case, we have decided to process the carrier selection for Clovis

¹ See Order 2002-2-13 for a complete discussion of the emergency relief.

and Silver City/Hurley/Deming through show-cause procedures, rather than by initially soliciting proposals from all interested applicants. Potential applicants will have an opportunity to submit competing proposals in response to our tentative selection decision here.

As is customary when we use show-cause procedures, we contacted Mesa and requested that if the carrier found that subsidy was necessary for its continued service at the communities, it submit a proposal to the Department. Mesa responded by submitting and negotiating with us a proposal to continue to provide the current service level, three nonstop round trips each weekday and each weekend to Albuquerque, at each community with 19-passenger Beech 1900D aircraft: Mesa's annual subsidy requirements for this service would be \$1,439,865 for Clovis and \$1,352,983 for Silver City/Hurley/Deming. (See Appendix B, pages 3 and 6 for summary computations of these rates.)

We have tentatively decided to reselect Mesa Air Group, d/b/a Air Midwest, Inc., to provide essential air service at Clovis and Silver City/Hurley/Deming for the period of June 1, 2004, through July 31, 2006. We find that Mesa's proposed subsidy rates are reasonable for the proposed level of service.²

Carrier Fitness

According to 49 U.S.C. 41737(b) and 41738, the Department must find an air carrier fit, willing and able to provide reliable service before we compensate it for providing essential air service. We last reviewed Mesa Air Group/Air Midwest's fitness by Order 2004-7-10, July 15, 2004, in connection with its subsidized air service at Pueblo, Colorado. Since then, the Department has routinely monitored the carrier's continuing fitness, and no information has come to our attention that would lead us to question its ability to operate in a reliable manner. Based on our review of its most recent submissions, we find that Mesa Air Group/Air Midwest continues to have available adequate financial and managerial resources to maintain reliable service at Clovis and Silver City/Hurley/Deming, and that it continues to possess a favorable compliance disposition. The Federal Aviation Administration has advised us that the carrier is conducting its operations in accordance with 14 CFR Part 121, and knows of no reason why we should not find that Mesa Air Group/Air Midwest remains fit.

Response to Tentative Selection

We will give interested persons 30 days from the date of service of this order to show cause why we should not make final our tentative decision to reselect Mesa Air Group/Air Midwest to provide essential air service at Clovis and Silver City/Hurley/Deming at the service and subsidy levels discussed above. If no timely objections or competing proposals are filed, this order will automatically become final. We expect persons objecting to our tentative decision to support their objections with relevant and material facts. We will not entertain general, vague, or unsupported objections.

² Appendix B, pages 3 and 6, contains summary calculations of Mesa's compensation requirements for this service.

Procedures for Filing Replacement Proposals

Carriers interested in filing proposals, with or without subsidy requests, should file them within 30 days of the date of service of this order. At the end of that period, our staff will docket the proposals, thereby making them public, and direct each carrier to serve a copy of its proposal on the civic parties and other applicants. Shortly afterwards, we will provide a summary of the proposals to the communities and ask them to submit their final comments. We will give full consideration to all proposals that are timely filed.³ If competing proposals are received, Mesa/Air Midwest will be given the opportunity to revise or amend its proposals, if it wishes.

Recently we have noticed that most orders requesting essential air service proposals have drawn interest from at least two carriers, and sometimes more. Under the circumstances, we expect that competition among multiple carriers will ensure reasonable subsidy requests, obviate the need for further rate negotiations, and allow us to streamline the carrier selection process.

Consequently, interested carriers should prepare their proposals with every expectation that their initial proposals will also be their *final* and *only* proposals.⁴ We retain the discretion to negotiate proposals with carriers when we deem it desirable; in such cases, of course, we will give all applicants the same opportunity. We also retain the discretion to reject outright all unreasonable or unrealistic proposals and resolicit a new round of proposals. However, we anticipate that negotiation or rejection will remain only occasional exceptions to the rule.

We are here providing interested carriers with some basic information to serve as guidance when they prepare their proposals, but we will not prescribe a precise format for their proposals. We expect proposals to adequately describe the service being proposed and the annual amount of subsidy being requested. The applicants can make their own judgments as to the level of detail they wish to present; however, they might want to include proposed schedules as well as supporting data for their subsidy requests, such as projected block hours, revenues and expenses. We strongly encourage clear, well-documented proposals that will facilitate their evaluation by the affected communities and the Department. We do not anticipate any change in our selection criteria, or in the general provisions governing subsidy payments for essential air service.⁵

³ In cases where a carrier proposes to provide essential air service without subsidy and we determine that service can be reliably provided without such compensation, we do not proceed with the carrier-selection case. Instead, we simply rely on that carrier's subsidy-free service as proposed.

⁴ For this reason, we will allow carriers 30 days to submit their proposals, rather than just 20 as in the past. Because the new procedures anticipate that a carrier's first proposal will also be its final proposal, we expect to enforce our filing deadlines more stringently than in the past. Carriers should not expect the Department to accept late filings. The additional 10 days will comfortably accommodate the additional time carriers may find necessary to prepare their proposals.

⁵ In selecting a carrier to provide subsidized essential air service, 49 U.S.C. 41733(c)(1) directs us to consider four factors: (1) service reliability; (2) contractual and marketing arrangements with a larger carrier at the hub; (3) interline arrangements with a larger carrier at the hub; and (4) community views. In addition, we have always given weight to the applicants' relative subsidy requirements.

With respect to the specific New Mexico markets at issue here, we expect proposals consisting of service, at a minimum, with two-pilot, twin-engine aircraft with at least 15 passenger seats, and offering two round trips each weekday and each weekend from the essential air service community to a suitable hub. (Given the low traffic levels discussed below, we would not be inclined to continue to subsidize three round trips a day with aircraft of that size.) We encourage proposals that meet those requirements in an efficient manner. Carriers are also welcome to propose more than one service option, if they choose; they need not limit themselves to those requirements if they envision other, potentially more attractive service possibilities—different hubs, for example—with subsidy requirements that remain competitive.

Service and Traffic History

Mesa/Air Midwest has served these communities since the mid-1980's. During the year ended March 31, 2004, the most recent 12-month period for which traffic data are available, Clovis averaged 5.2 enplanements a day and Silver City/Hurley/Deming 5.1 enplanements a day. These figures represent declines of 54 and 51 percent, respectively, from levels registered during calendar year 2000, prior to the terrorist attacks of September 11.⁶

Other Carrier Requirements

The Department is responsible for implementing various Federal statutes governing lobbying activities, drug-free workplaces, and nondiscrimination.⁷ Consequently, all carriers receiving Federal subsidy to support essential air service must certify that they are in compliance with Department regulations regarding drug-free workplaces and nondiscrimination, and those carriers whose subsidies exceed \$100,000 over the life of the contract must also certify that they are in compliance with the regulations governing lobbying activities. All carriers that plan to submit proposals involving subsidy should submit the required certifications along with their proposals. Interested carriers requiring more detailed information regarding these requirements as well as copies of the certifications should contact the Office of Aviation Analysis at (202) 366-1053. The Department is prohibited from paying subsidy to carriers that do not submit these documents.

This order is issued under authority delegated in 49 CFR 1.56a(f).

⁶ See Appendix C for historical traffic data. Enplanements represent one-half of total origin-and-destination traffic, and average enplanements per day are based on 313 weekdays and weekends a year, except as noted.

⁷ The regulations applicable to these areas are: (1) 49 CFR Part 20 -- New restrictions on lobbying; (2) 49 CFR Part 21 -- Nondiscrimination in federally-assisted programs of the Department of Transportation -- Effectuation of title VI of the Civil Rights Act of 1964; 49 CFR Part 27 --Nondiscrimination on the basis of disability in programs and activities receiving or benefiting from Federal financial assistance; and 14 CFR Part 382 -- Nondiscrimination on the basis of disability in air travel; and (3) 49 CFR Part 29 -- Government-wide debarment and suspension (non-procurement) and government-wide requirements for drug-free workplace (grants).

ACCORDINGLY

1. The Department sets the final subsidy rate for Mesa Air Group, Inc., d/b/a Air Midwest, for the provision of essential air service at Clovis, New Mexico, for the period of October 1, 2001, through March 31, 2003, as described in Appendix A, Page 1, to this order, to be payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling and shall be determined by multiplying the subsidy-eligible flights completed during the month to Albuquerque by \$687.51;⁸
2. The Department sets the final subsidy rate for Mesa Air Group, Inc., d/b/a Air Midwest, for the provision of essential air service at Clovis, New Mexico, for the period of April 1, 2003, through May 31, 2004, as described in Appendix A, Page 2, to this order, to be payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling and shall be determined by multiplying the subsidy-eligible flights completed during the month to Albuquerque by \$747.94;⁹
3. The Department tentatively reselects Mesa Air Group, Inc., d/b/a Air Midwest, to provide basic essential air service at Clovis, New Mexico, for the period of June 1, 2004, through July 31, 2006, as described in Appendix A, Page 3, to this order;
4. The Department tentatively sets the final rates of compensation for Mesa Air Group, Inc., d/b/a Air Midwest, for the provision of essential air service at Clovis, New Mexico, for the period of June 1, 2004, through July 31, 2006, as described in Appendix A, Page 3, to this order, to be payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling and shall be determined by multiplying the subsidy-eligible flights completed during the month to Albuquerque by \$801.26;¹⁰
5. The Department sets the final subsidy rate for Mesa Air Group, Inc., d/b/a Air Midwest, for the provision of essential air service at Silver City/Hurley/Deming, New Mexico, for the period of October 1, 2001, through March 31, 2003, as described in Appendix A, Page 4, to this order, to be payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling and shall be determined by multiplying the subsidy-eligible flights completed during the month to Albuquerque by \$626.55;¹¹
6. The Department sets the final subsidy rate for Mesa Air Group, Inc., d/b/a Air Midwest, for the provision of essential air service at Silver City/Hurley/Deming, New Mexico, for the period of April 1, 2003, through May 31, 2004, as described in Appendix A, Page 5, to this order, to be payable as follows: for each calendar month

⁸ See Appendix A, page 1, for subsidy calculations.

⁹ See Appendix A, page 2, for subsidy calculations.

¹⁰ See Appendix A, page 3, for subsidy calculations.

¹¹ See Appendix A, page 4, for subsidy calculations.

during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling and shall be determined by multiplying the subsidy-eligible flights completed during the month to Albuquerque by \$703.85;¹²

7. The Department tentatively reselects Mesa Air Group, Inc., d/b/a Air Midwest, to provide basic essential air service at Silver City/Hurley/Deming, New Mexico, for the period of June 1, 2004, through July 31, 2006, as described in Appendix A, Page 6, to this order;

8. The Department tentatively sets the final rates of compensation for Mesa Air Group, Inc., d/b/a Air Midwest, for the provision of essential air service at Silver City/Hurley/Deming, New Mexico, for the period of June 1, 2004, through July 31, 2006, as described in Appendix A, Page 6, to this order, to be payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling and shall be determined by multiplying the subsidy-eligible flights completed during the month to Albuquerque by \$752.91;¹³

9. We request that carriers interested in providing essential air service at Clovis and Silver City/Hurley/Deming, New Mexico, submit their proposals, with or without subsidy requests, no later than 30 days after the date of service of this order. The proposals should be sent to the EAS & Domestic Analysis Division, X-53, Office of Aviation Analysis, Room 6401, Department of Transportation, 400 7th Street S.W., Washington, DC 20590, with the title "Proposal to Provide Essential Air Service at [the community or communities at issue]," with the docket number corresponding to each community as shown on the first page of this order;¹⁴

10. If competing proposals are timely filed, the final rates established for Mesa Air Group/Air Midwest, in ordering paragraphs (4) and (8), above, shall be effective from June 1, 2004, until further Department action;

11. We will afford full consideration to the matters and issues raised in any timely and properly filed service proposals before we take further action. If no competing proposals are filed, all further procedural steps will be deemed to have been waived, and the carrier selection tentatively made by this order shall become effective on the twenty-first day after the date of service of this order;

12. We direct Mesa Air Group, Inc., d/b/a Air Midwest, to retain all books, records, and other source and summary documentation to support claims for payment and to preserve and maintain such documentation in a manner that readily permits the audit and examination by representatives of the Department. Such documentation shall be retained for seven years or until the Department indicates that the records may be destroyed,

¹² See Appendix A, page 5, for subsidy calculations.

¹³ See Appendix A, page 6, for subsidy calculations.

¹⁴ Questions regarding filings in response to this order may be directed to Luther Dietrich at (202) 366-1046.

whichever is earlier. Copies of flight logs for aircraft sold or disposed of must be retained. The carrier may forfeit its compensation for any claim that is not supported under the terms of this order;

13. The rates set by ordering paragraphs (1) and (5), above, are in lieu of, and not in addition to the rates set by Orders 2001-5-18 and 2002-2-13 for the period of October 1, 2001, through March 31, 2003;

14. The rates set by ordering paragraphs (2), (4), (6), and (8), above, are in lieu of, and not in addition to the rates set by Order 2003-5-25;

15. Dockets OST-1996-1902 and OST-1996-1903 will remain open until further Department order; and

16. We will serve a copy of this order on the Mayors of Clovis, Silver City, Hurley, and Deming, New Mexico; the airport managers of Clovis and Silver City; the Director, New Mexico Department of Transportation, Aviation Division; Mesa Air Group, Inc.; and the air carriers listed in Appendix D.

By:

KARAN K. BHATIA
Assistant Secretary for Aviation
and International Affairs

(SEAL)

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<http://dms.dot.gov>*

Mesa Air Group, Inc.
Provision of Essential Air Service at Clovis, New Mexico
Summary of Service To Be Provided

Effective period: October 1, 2001, through March 31, 2003.

Service: 18 round trips to Albuquerque.

Intermediate stops and upline service: Nonstop to Albuquerque.
No limitation on service to upline points.

Aircraft type: Beech 1900D (19 passenger seats).

Timing of flights: Flights must be well-timed and well-spaced in order to ensure full compensation.

Annual compensation: \$1,265,010.

Subsidy rate for each arrival from or departure to Albuquerque: \$687.51 ¹

Weekly compensation ceiling:² \$24,750.36 ³

¹ Annual compensation of \$1,265,010 (from Appendix B, Page 1), divided by the number of departures estimated to be performed annually (1,840 departures, from Appendix B, Page 1).

² Weeks that fall into separate calendar months shall be treated as part of the latter month for the purpose of calculating service weeks each month and monthly compensation. Service above the ceiling level in one week cannot make up for service shortfalls in another week.

³ The subsidy rate for each arrival/departure multiplied by the number of scheduled subsidy-eligible flights per week (36).

Mesa Air Group, Inc.
Provision of Essential Air Service at Clovis, New Mexico
Summary of Service To Be Provided

Effective period: April 1, 2003, through May 31, 2004.

Service: 18 round trips to Albuquerque.

Intermediate stops and upline service: Nonstop to Albuquerque.
No limitation on service to upline points.

Aircraft type: Beech 1900D (19 passenger seats).

Timing of flights: Flights must be well-timed and well-spaced in order to ensure full compensation.

Annual compensation: \$1,344,044.

Subsidy rate for each arrival from or departure to Albuquerque: \$747.94 ⁴

Weekly compensation ceiling:⁵ \$26,925.84 ⁶

⁴ Annual compensation of \$1,344,044 (from Appendix B, Page 2), divided by the number of departures estimated to be performed annually (1,797 departures, from Appendix B, Page 2).

⁵ Weeks that fall into separate calendar months shall be treated as part of the latter month for the purpose of calculating service weeks each month and monthly compensation. Service above the ceiling level in one week cannot make up for service shortfalls in another week.

⁶ The subsidy rate for each arrival/departure multiplied by the number of scheduled subsidy-eligible flights per week (36).

Mesa Air Group, Inc.
Provision of Essential Air Service at Clovis, New Mexico
Summary of Service To Be Provided

Effective period: June 1, 2004 through July 31, 2006.

Service: Three round trips each weekday and each weekend to Albuquerque.

Intermediate stops and upline service: Nonstop to Albuquerque.
No limitation on service to upline points.

Aircraft type: Beech 1900D (19 passenger seats).

Timing of flights: Flights must be well-timed and well-spaced in order to ensure full compensation.

Annual compensation: \$1,439,865.

Subsidy rate for each arrival from or departure to Albuquerque: \$801.26 ⁷

Weekly compensation ceiling:⁸ \$28,845.36 ⁹

⁷ Annual compensation of \$1,439,865 (from Appendix B, Page 3), divided by the number of departures estimated to be performed annually (1,797 departures, from Appendix B, Page 3).

⁸ Weeks that fall into separate calendar months shall be treated as part of the latter month for the purpose of calculating service weeks each month and monthly compensation. Service above the ceiling level in one week cannot make up for service shortfalls in another week.

⁹ The subsidy rate for each arrival/departure multiplied by the number of scheduled subsidy-eligible flights per week (36).

Mesa Air Group, Inc.
Provision of Essential Air Service at Silver City/Hurley/Deming, New Mexico
Summary of Service To Be Provided

Effective period: October 1, 2001, through March 31, 2003.

Service: 18 round trips each week to Albuquerque.

Intermediate stops and upline service: Nonstop to Albuquerque.
No limitation on service to upline points.

Aircraft type: Beech 1900D (19 passenger seats).

Timing of flights: Flights must be well-timed and well-spaced in order to ensure full compensation.

Annual compensation: \$1,152,858.

Subsidy rate for each arrival from or departure to Albuquerque: \$626.55¹⁰

Weekly compensation ceiling: ¹¹ \$22,555.80¹²

¹⁰ Annual compensation of \$1,152,858 (from Appendix B, Page 4), divided by the number of departures estimated to be performed annually (1,840 departures, from Appendix B, Page 4).

¹¹ Weeks that fall into separate calendar months shall be treated as part of the latter month for the purpose of calculating service weeks each month and monthly compensation. Service above the ceiling level in one week cannot make up for service shortfalls in another week.

¹² The subsidy rate for each arrival/departure multiplied by the number of scheduled subsidy-eligible flights per week (36).

Mesa Air Group, Inc.
Provision of Essential Air Service at Silver City/Hurley/Deming, New Mexico
Summary of Service To Be Provided

Effective period: April 1, 2003, through May 31, 2004.

Service: 18 round trips per week to Albuquerque.

Intermediate stops and upline service: Nonstop to Albuquerque.
No limitation on service to upline points.

Aircraft type: Beech 1900D (19 passenger seats).

Timing of flights: Flights must be well-timed and well-spaced in order to ensure full compensation.

Annual compensation: \$1,264,828.

Subsidy rate for each arrival from or departure to Albuquerque: \$703.85¹³

Weekly compensation ceiling:¹⁴ \$25,338.60¹⁵

¹³ Annual compensation of \$1,264,828 (from Appendix B, Page 5), divided by the number of departures estimated to be performed annually (1,797 departures, from Appendix B, Page 5).

¹⁴ Weeks that fall into separate calendar months shall be treated as part of the latter month for the purpose of calculating service weeks each month and monthly compensation. Service above the ceiling level in one week cannot make up for service shortfalls in another week.

¹⁵ The subsidy rate for each arrival/departure multiplied by the number of scheduled subsidy-eligible flights per week (36).

Mesa Air Group, Inc.
Provision of Essential Air Service at Silver City/Hurley/Deming, New Mexico
Summary of Service To Be Provided

Effective period: June 1, 2004, through July 31, 2006.

Service: Three round trips each weekday and each weekend to Albuquerque.

Intermediate stops and upline service: Nonstop to Albuquerque.
No limitation on service to upline points.

Aircraft type: Beech 1900D (19 passenger seats).

Timing of flights: Flights must be well-timed and well-spaced in order to ensure full compensation.

Annual compensation: \$1,352,983.

Subsidy rate for each arrival from or departure to Albuquerque: \$752.91¹⁶

Weekly compensation ceiling:¹⁷ \$27,104.76¹⁸

¹⁶ Annual compensation of \$1,352,983 (from Appendix B, Page 6), divided by the number of departures estimated to be performed annually (1,797 departures, from Appendix B, Page 6).

¹⁷ Weeks that fall into separate calendar months shall be treated as part of the latter month for the purpose of calculating service weeks each month and monthly compensation. Service above the ceiling level in one week cannot make up for service shortfalls in another week.

¹⁸ The subsidy rate for each arrival/departure multiplied by the number of scheduled subsidy-eligible flights per week (36).

Mesa Air Group, Inc.
Essential Air Service at Clovis and Silver City/Hurley/Deming, New Mexico
Summary of Service To Be Provided

The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of this order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with the order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirement at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parties to the agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

Mesa Air Group, Inc./Air Midwest, Inc.
Proposal To Provide Essential Air Service at Clovis, New Mexico
Calculation of Annual Compensation Requirement
(Rate applicable to the period of October 1, 2001, through March 31, 2003)

Mileage:	CVN-ABQ	205
Departures:		1,840
Block hours:		1,840
Available seat-miles:		7,166,800
Revenue passenger-miles:		804,420
Completion factor:		0.98

Operating revenue:			
Passenger	3,924	CVN-ABQ passengers @ \$100.89 average fare	\$395,892
Other	1.0%	of passenger revenue of \$395,892	<u>3,959</u>
Total operating revenue			\$399,851

Operating expense:				
Direct operating expense:				
Flying operations	\$135.58	per block hour	1,840	\$249,467
Fuel & oil	\$133.19	per block hour	1,840	245,070
Other flight operations	\$14.01	per block hour	1,840	25,778
Hull insurance	\$4.97	per block hour	1,840	9,145
Liability insurance	\$2.01	per 1,000 RPM's	804	1,617
Liability (war)	\$1.25	per passenger	3,924	4,905
Maintenance	\$258.06	per block hour	1,840	474,830
Aircraft lease	\$138.67	per block hour	1,840	<u>255,153</u>
Total direct operating expense				\$1,265,965

Indirect operating expense:				
Traffic-related	\$0.079	per RPM	804,420	\$63,549
Local marketing	\$5,000	per EAS community		5,000
Departure-related	\$97.50	per departure	1,840	179,400
Capacity-related	\$0.010	per ASM	7,166,800	<u>71,668</u>
Total indirect expense				<u>\$319,617</u>

Total operating expense	<u>\$1,585,582</u>
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Operating loss	\$1,185,731
Profit element	5 % Total operating expense \$1,585,582 <u>79,279</u>

Compensation requirement	<u>\$1,265,010</u>
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Mesa Air Group, Inc./Air Midwest, Inc.
Proposal To Provide Essential Air Service at Clovis, New Mexico
Calculation of Annual Compensation Requirement
(Rate applicable to the period of April 1, 2003, through May 31, 2004)

Mileage:	CVN-ABQ	205
Departures:		1,797
Block hours		1,797
Available seat-miles		7,033,928
Revenue passenger-miles		708,750
Completion factor		0.96

Operating revenue:			
Passenger	3,750	CVN-ABQ passengers @ \$105.00 average fare	\$393,750
Other	0.01	of passenger revenue of \$393,750	<u>3,938</u>
Total operating revenue			\$397,688

Operating expense:				
Direct operating expense:				
Crew and training	\$153.15	per block hour	1,797	\$275,229
Hull insurance	\$6.93	per block hour	1,797	12,454
Fuel and oil	\$140.00	per block hour	1,797	251,597
Maintenance	\$289.22	per block hour	1,797	519,763
Aircraft ownership	\$49.12	per block hour	1,797	<u>88,275</u>
Total direct operating expense				\$1,147,317

Indirect operating expense:				
Traffic-related	\$0.060	per revenue passenger-mile	708,750	\$42,525
Marketing	\$5,000	per EAS community		5,000
Capacity-related (a)	\$148	per departure	1,797	266,082
Capacity-related (b)	\$0.0194	per available seat-mile	7,033,928	<u>136,458</u>
Total indirect operating expense				<u>\$450,065</u>

Total operating expense				<u>\$1,597,382</u>
Operating loss				\$1,199,694
Profit element	0.05	Total operating expense	\$1,597,382	79,869
Interest expense	\$35.88	per block hour	1,797	<u>64,481</u>
Compensation requirement				<u>\$1,344,044</u>

Mesa Air Group, Inc./Air Midwest, Inc.
 Proposal To Provide Essential Air Service at Clovis, New Mexico
Calculation of Annual Compensation Requirement
 (Rate applicable to the period of June 1, 2004, through July 31, 2006)

Mileage:	CVN-ABQ	205
Departures:		1,797
Block hours		1,797
Available seat-miles		7,033,928
Revenue passenger-miles		708,750
Completion factor		0.96

Operating revenue:			
Passenger	3,750	CVN-ABQ passengers @ \$105.00 average fare	\$393,750
Other	0.01	of passenger revenue of \$393,750	<u>3,938</u>
Total operating revenue			\$397,688

Operating expense:				
Direct operating expense:				
Crew and training	\$128.95	per block hour	1,797	\$231,739
Hull insurance	\$6.93	per block hour	1,797	12,454
Fuel and oil	\$163.20	per block hour	1,797	293,290
Maintenance	\$341.00	per block hour	1,797	612,818
Aircraft ownership	\$49.12	per block hour	1,797	<u>88,275</u>
Total direct operating expense				\$1,238,575

Indirect operating expense:				
Traffic-related	\$0.060	per revenue passenger-mile	708,750	\$42,525
Marketing	\$5,000	per EAS community		5,000
Capacity-related (a)	\$148	per departure	1,797	266,082
Capacity-related (b)	\$0.0194	per available seat-mile	7,033,928	<u>136,458</u>
Total indirect operating expense				<u>\$450,065</u>

Total operating expense				<u>\$1,688,640</u>
Operating loss				\$1,290,952
Profit element	0.05	Total operating expense	\$1,688,640	84,432
Interest expense	\$35.88	per block hour	1,797	<u>64,481</u>
Compensation requirement				<u>\$1,439,865</u>

Mesa Air Group, Inc./Air Midwest, Inc.
 Proposal To Provide Essential Air Service at Silver City/Hurley/Deming, New Mexico
Calculation of Annual Compensation Requirement
 (Rate applicable to the period of October 1, 2001, through March 31, 2003)

Mileage:	SVC-ABQ	188
Departures:		1,840
Block hours		1,687
Available seat-miles		6,572,480
Revenue passenger-miles		687,140

Operating revenue:			
Passenger	3,655	SVC-ABQ passengers @ \$104.42 average fare	\$381,655
Other	1.0%	of passenger revenue of \$381,655	<u>3,817</u>
Total operating revenue			\$385,472

Operating expense:				
Direct operating expense:				
Flying operations	\$135.58	per block hour	1,687	\$228,723
Fuel & oil	\$133.19	per block hour	1,687	224,692
Other flight operations	\$14.01	per block hour	1,687	23,635
Hull insurance	\$4.97	per block hour	1,687	8,384
Liability insurance	\$2.01	per 1,000 RPM's	687	1,381
Liability (war)	\$1.25	per passenger	3,655	4,569
Maintenance	\$258.06	per block hour	1,687	435,347
Aircraft lease	\$138.67	per block hour	1,687	<u>233,936</u>
Total direct operating expense				\$1,160,667

Indirect operating expense:				
Traffic-related	\$0.079	per RPM	687,140	\$54,284
Local marketing	\$5,000	per EAS community		5,000
Departure-related	\$97.50	per departure	1,840	179,400
Capacity-related	\$0.010	per ASM	6,572,480	<u>65,725</u>
Total indirect expense				<u>\$304,409</u>

Total operating expense				<u>\$1,465,076</u>
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Operating loss				\$1,079,604
Profit element	5 %	Total operating expense	\$1,465,076	<u>73,254</u>

Compensation requirement				<u>\$1,152,858</u>
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Mesa Air Group, Inc./Air Midwest, Inc.
 Proposal To Provide Essential Air Service at Silver City/Hurley/Deming, New Mexico
Calculation of Annual Compensation Requirement
 (Rate applicable to the period of April 1, 2003, through May 31, 2004)

Mileages:	SVC-ABQ	188
Departures:		1,797
Block hours		1,653
Available seat-miles		6,453,458
Revenue passenger-miles		661,500
Completion factor		0.96

Operating revenue:

Passenger	3,500	SVC-ABQ passengers @ \$102.00 average fare	\$357,000
Other	0.01	of passenger revenue of \$357,000	<u>3,570</u>
Total operating revenue			\$360,570

Operating expense:

Direct operating expense:

Crew and training	\$153.15	per block hour	1,653	\$253,211
Hull insurance	\$6.93	per block hour	1,653	11,458
Fuel and oil	\$140.00	per block hour	1,653	231,469
Maintenance	\$289.22	per block hour	1,653	478,182
Aircraft ownership	\$49.12	per block hour	1,653	<u>81,213</u>
Total direct operating expense				\$1,055,532

Indirect operating expense:

Traffic-related	\$0.060	per revenue passenger-mile	661,500	\$39,690
Marketing	\$5,000	per EAS community		5,000
Capacity-related (a)	\$148	per departure	1,797	266,082
Capacity-related (b)	\$0.0194	per available seat-mile	6,453,458	<u>125,197</u>
Total indirect operating expense				<u>\$435,969</u>

Total operating expense				<u>\$1,491,501</u>
Operating loss				\$1,130,931
Profit element	0.05	Total operating expense	\$1,491,501	74,575
Interest expense	\$35.88	per block hour	1,653	<u>59,322</u>
Compensation requirement				<u>\$1,264,828</u>

Mesa Air Group, Inc./Air Midwest, Inc.
Proposal To Provide Essential Air Service at Silver City/Hurley/Deming, New Mexico
Calculation of Annual Compensation Requirement
(Rate applicable to the period of June 1, 2004, through July 31, 2006)

Mileages:	SVC-ABQ	188
Departures:		1,797
Block hours		1,653
Available seat-miles		6,453,458
Revenue passenger-miles		661,500
Completion factor		0.96

Operating revenue:			
Passenger	3,500	SVC-ABQ passengers @ \$102.00 average fare	\$357,000
Other	0.01	of passenger revenue of \$357,000	<u>3,570</u>
Total operating revenue			\$360,570

Operating expense:				
Direct operating expense:				
Crew and training	\$128.95	per block hour	1,653	\$213,200
Hull insurance	\$6.93	per block hour	1,653	11,458
Fuel and oil	\$163.20	per block hour	1,653	269,827
Maintenance	\$341.00	per block hour	1,653	563,792
Aircraft ownership	\$49.12	per block hour	1,653	<u>81,213</u>
Total direct operating expense				\$1,139,489

Indirect operating expense:				
Traffic-related	\$0.060	per revenue passenger-mile	661,500	\$39,690
Marketing	\$5,000	per EAS community		5,000
Capacity-related (a)	\$148	per departure	1,797	266,082
Capacity-related (b)	\$0.0194	per available seat-mile	6,453,458	<u>125,197</u>
Total indirect operating expense				<u>\$435,969</u>

Total operating expense				<u>\$1,575,458</u>
Operating loss				\$1,214,888
Profit element	0.05	Total operating expense	\$1,214,888	78,773
Interest expense	\$35.88	per block hour	1,653	<u>59,322</u>
Compensation requirement				<u>\$1,352,983</u>

Historical Origin-Destination Passenger Traffic and Average Daily Enplanements
at Clovis, New Mexico

Four quarters ended	Origin- destination passengers ¹	Average annual enplanements ²	Average enplanements per service day ³
12/31/1986	6,799	3,400	10.9
12/31/1987	7,314	3,657	11.7
12/31/1988	6,104	3,052	9.7
12/31/1989	5,190	2,595	8.3
12/31/1990	5,620	2,810	9.0
12/31/1991	5,213	2,606	8.3
12/31/1992	7,093	3,546	11.3
12/31/1993	8,320	4,160	13.3
12/31/1994	9,544	4,772	15.2
12/31/1995	9,180	4,590	14.7
12/31/1996	7,219	3,610	11.5
12/31/1997	7,312	3,656	11.7
12/31/1998	8,880	4,440	14.2
12/31/1999	8,126	4,063	13.0
12/31/2000	7,060	3,530	11.2
12/31/2001	4,970	2,485	7.9
12/31/2002	4,635	2,318	7.4
12/31/2003	3,246	1,623	5.2
3/31/2004	3,251	1,626	5.2

¹ Source: D.O.T., R.S.P.A. and B.T.S., Form 298-C, Schedule T-1 origin-destination passengers and B.T.S. Form T100 market origin-destination passengers reported by Mesa Airlines, Inc., and Air Midwest, Inc.

² Origin-destination passengers divided by two.

³ Average annual enplanements divided by 313 effective annual service days, except for the four quarters ended 12/31/1988, 12/31/1992, 12/31/1996, and 12/31/2000 (314 effective annual service days to reflect leap years).

Historical Origin-Destination Passenger Traffic and Average Daily Enplanements
at Silver City/Hurley/Deming, New Mexico

Four quarters ended	Origin- destination passengers ⁴	Average annual enplanements ⁵	Average enplanements per service day ⁶
12/31/1986	4,693	2,346	7.5
12/31/1987	4,442	2,221	7.1
12/31/1988	4,572	2,286	7.3
12/31/1989	4,748	2,374	7.6
12/31/1990	4,397	2,198	7.0
12/31/1991	3,912	1,956	6.2
12/31/1992	4,723	2,362	7.5
12/31/1993	5,969	2,984	9.5
12/31/1994	7,000	3,500	11.2
12/31/1995	6,084	3,042	9.7
12/31/1996	3,867	1,934	6.2
12/31/1997	7,686	3,843	12.3
12/31/1998	5,697	2,848	9.1
12/31/1999	6,566	3,283	10.5
12/31/2000	6,538	3,269	10.4
12/31/2001	4,591	2,296	7.3
12/31/2002	3,795	1,898	6.1
12/31/2003	3,222	1,611	5.1
3/31/2004	3,184	1,592	5.1

⁴ Source: D.O.T., R.S.P.A. and B.T.S., Form 298-C, Schedule T-1 origin-destination passengers and B.T.S. Form T100 market origin-destination passengers reported by Mesa Airlines, Inc., and Air Midwest, Inc.

⁵ Origin-destination passengers divided by two.

⁶ Average annual enplanements divided by 313 effective annual service days, except for the four quarters ended 12/31/1988, 12/31/1992, 12/31/1996, and 12/31/2000 (314 effective annual service days to reflect leap years).

Service List for the State of New Mexico

ACT International Airlines, Inc.	Great Lakes Aviation, Ltd.
Aero Freight, Inc.	Mesa Airlines, Inc.
Air Midwest, Inc.	Metro Express II, Inc.
Air Transport, Inc.	Midwest Express Airlines, Inc.
Alpine Air Express	Redtail Aviation
Amerijet International, Inc.	Rio Grande Air
Arizona Express Airlines	Rocky Mountain Helicopters, Inc.
Arizona Pacific Airlines, Inc.	SkyVantage Corporation
Barken International, Inc.	SkyWest Airlines, Inc.
Conquest Airlines Corporation	Texas National Airlines, Inc.
Corporate Airlines, Inc.	Westward Airways, Inc.
Delta Connection	Wings West Airlines, Inc.
Exec Express II, Inc.	
Ken Bannon	Colleen O'Day
Rick Bauer	Lee Mason
Nathaniel P. Breed	Andy Pike
Doug Franklin	Cory Robin
E.B. Freeman	William C. Seigler
Douglas Gumula	Andrew Spinks
Ben Harrison	Larry Tiffin
A. Edward Jenner	Tim Wooldridge
Keith Kahle	